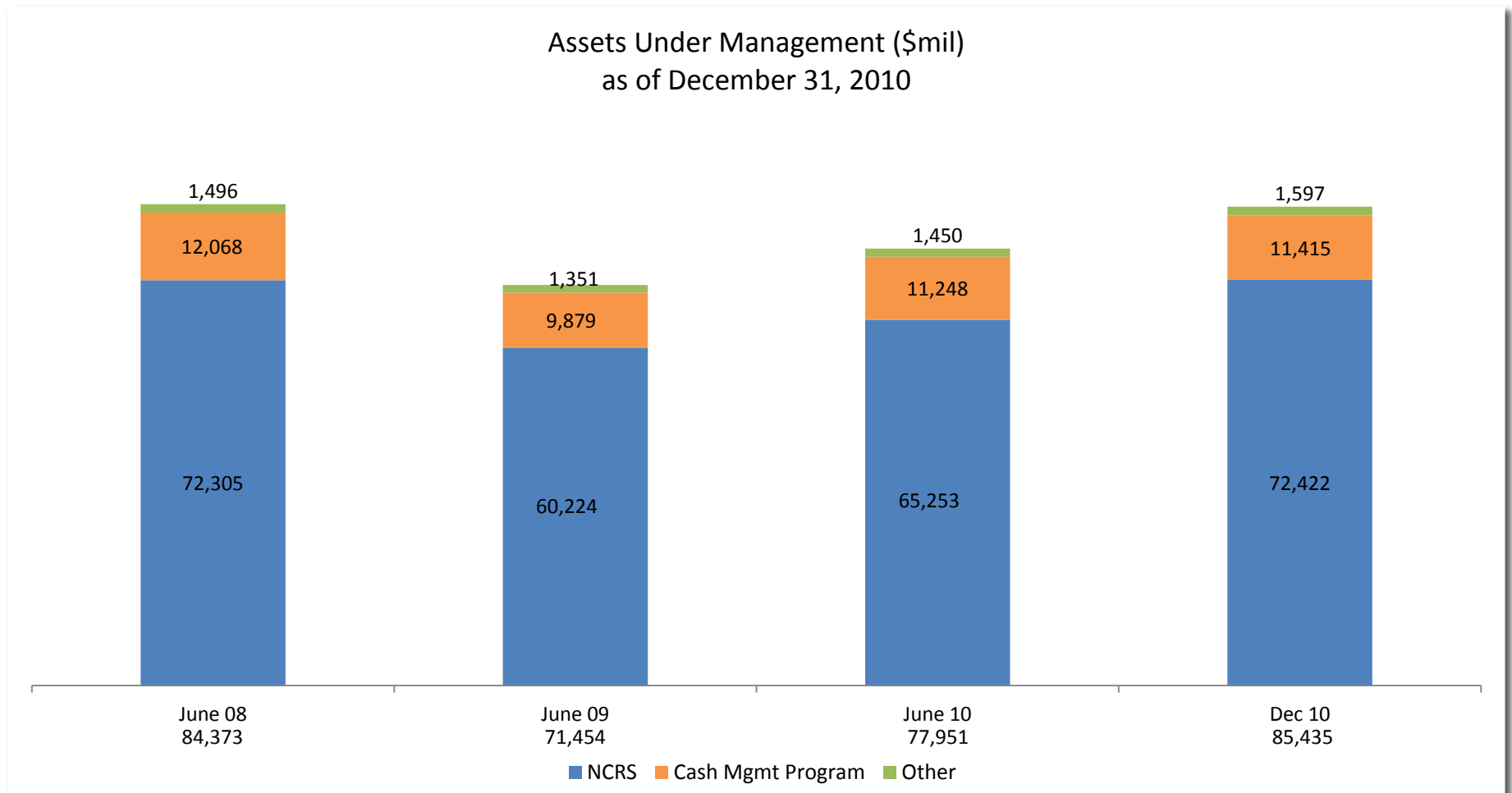


North Carolina Department of State Treasurer
2011 Legislative Session

\$85 Billion in Total Assets Under Management

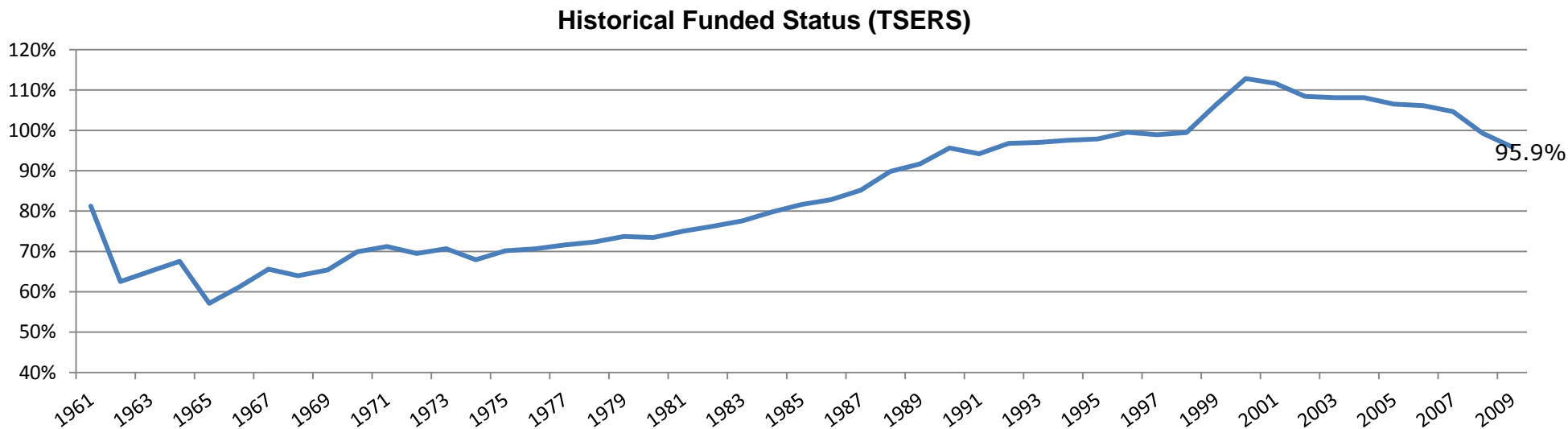
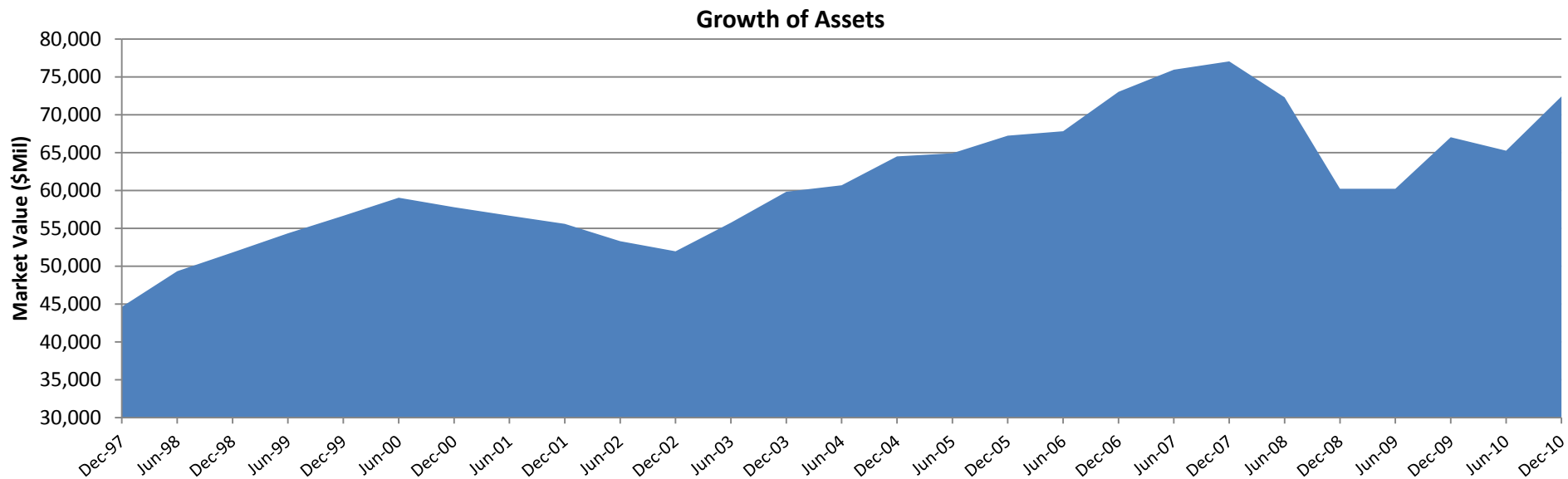


NCRS: The North Carolina Retirement System (also referred to as the Pension Plan) consists of seven retirement plans: Teachers' and State Employees', Consolidated Judicial, Firemen's and Rescue Workers, Local Governmental Employees, Legislative, and North Carolina National Guard.

Cash Management Program: Comprised mainly of the STIF (Short Term Investment Fund), the cash management program serves as the main operating account for state agencies. Its objective is to maximize income consistent with principles of preservation of capital and liquidity.

Other: Includes the Non-Pension participants in the LTIF, as well as investments of the Escheat Fund, UNC and Public Hospitals, and the Local Government Other Post-Employment Benefits Fund.

NCRS is Well Funded but Vulnerable



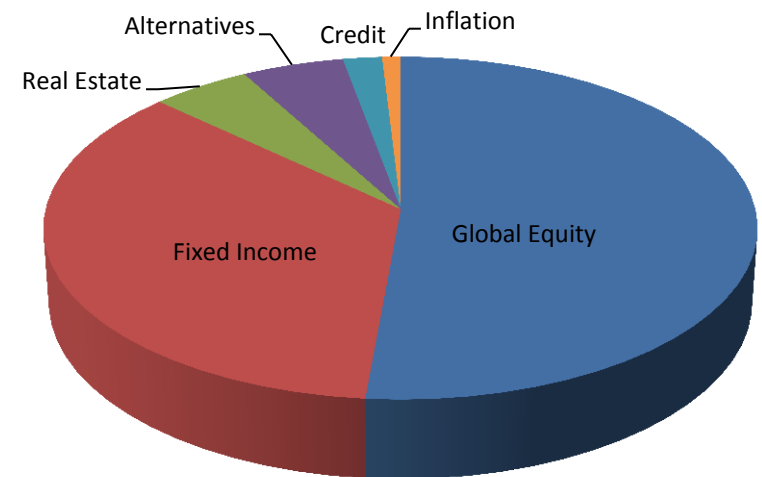
Overview of Team

Investment Management Division

- **27 Investment Professionals**
- **355 Total Years of Experience (15 Year Average)**
- **5 CFA (Chartered Financial Analyst) Charterholders; 3 Candidates in the CFA Program**
- **12 MBAs**
 - Harvard / Wharton / Northwestern / University of Chicago / UNC / Miami / Loyola / Pace / Appalachian State / Robert Morris
- **Depth of Prior Experience**
 - Duke Mgmt Co / State of Maryland / State Street Bank / Alliance Bernstein / BB&T / Citigroup / Credit Suisse / Eli Lilly / Indiana PERF / Goldman Sachs / JP Morgan / Progress / PIMCO / Lehman Brothers / Suiss Re / CIBC World Markets

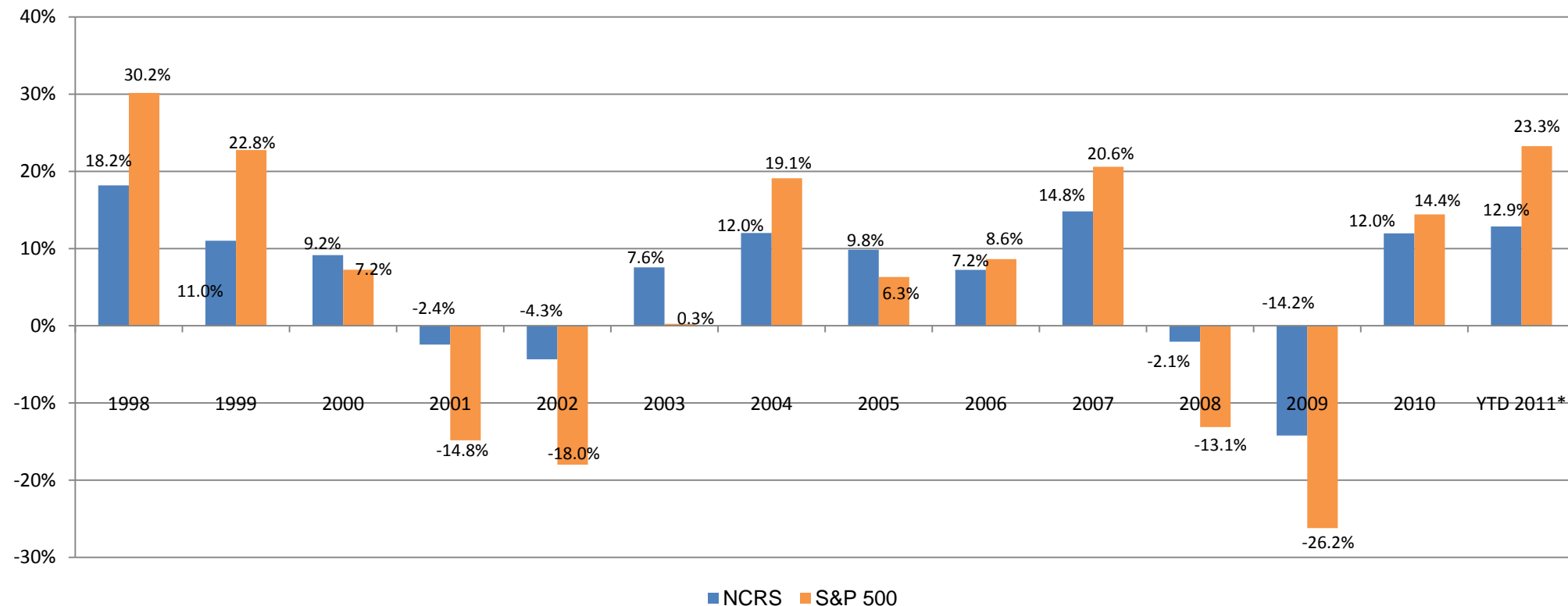
Assets Concentrated in Public Equity & Fixed Income

	Market Value (\$millions)	Current %	Target %
Global Equity	\$37,239	51.42%	40.50%
Fixed Income	\$25,723	35.52%	38.00%
Real Estate	\$3,632	5.02%	8.00%
Alternatives	\$3,716	5.13%	4.50%
Credit	\$1,429	1.97%	4.50%
Inflation	\$682	0.94%	4.50%
Total Fund	\$72,422	100%	100%



Portfolio Closely Mirrors Market Movements

Fiscal Year Performance vs. S&P 500



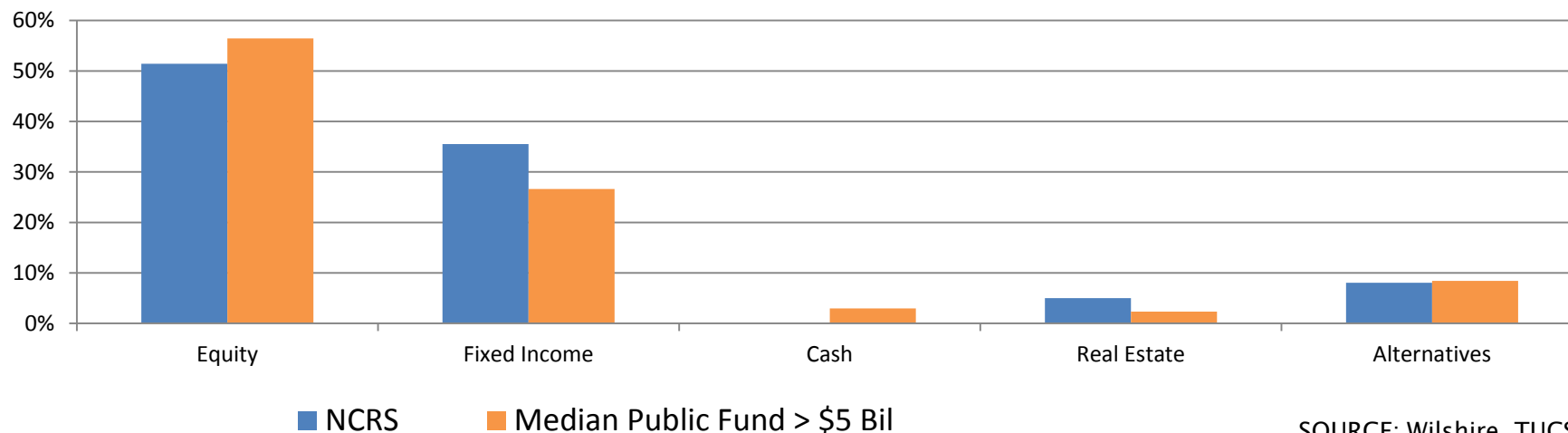
*as of 12/31/10

2009 Legislative Changes Helped Lower Portfolio Risk

2009 legislation allowed NCRS to invest in Credit and Inflation linked-strategies, which increased expected return and decreased expected risk of the total plan

Asset Class	Prior Target	Current Target
Global Equity	50.0%	40.5%
Fixed Income	39.5%	38.0%
Real Estate	6.0%	8.0%
Alternatives	4.5%	4.5%
Credit	0%	4.5%
Inflation	0%	4.5%
Expected Return	7.19%	7.30%
Expected Risk	10.05%	9.49%

Fixed Income Allocation Key Driver of Returns Versus Peers



SOURCE: Wilshire TUCS

Returns	1 Year	3 Year	5 Year	10 Year
25 th Percentile	14.26%	1.39%	5.21%	5.62%
Median	13.49%	0.37%	4.51%	5.15%
75 th Percentile	12.01%	-0.72%	3.94%	4.62%
NCRS	12.11%	1.43%	4.81%	5.20%
Risk				
25 th Percentile	9.12	13.16	10.74	9.26
Median	10.82	14.23	11.69	10.28
75 th Percentile	11.79	15.20	12.36	10.80
NCRS	8.85	12.03	9.84	8.73

Source: BNY Mellon Total Funds – Public Funds \$1+ Billion (Gross of Fees)

Three Proposed Legislative Changes in 2011 Session

- Expand the benchmark indices that may be used for internally managed equity
- Increase “Alternatives” maximum from 5% of assets to 10% of assets
- Allow long/short equity hedge fund strategies within the public equity portfolio

The key principle underlying these changes is to achieve the same or slightly better returns at a meaningfully lower level of risk.

S&P 500 Only 32% of Global Equity Universe

S&P 500

- Covers approximately 75% of the U.S. equity market
- Focuses on large cap stocks

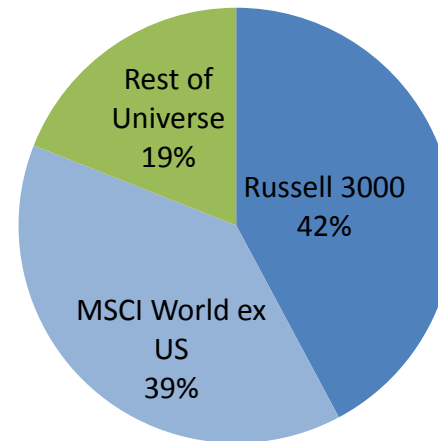
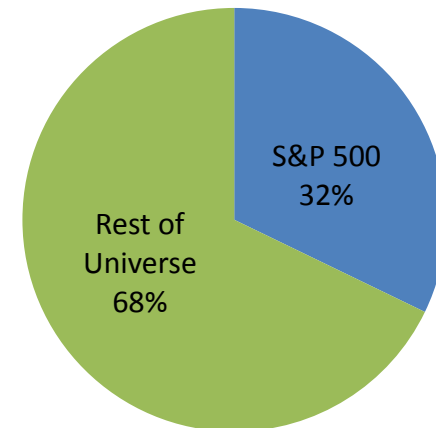
Russell 3000

- Covers approximately 98% of the U.S. equity market
- Coverage includes large cap, mid cap, and small cap stocks

MSCI World ex US

- Consists of 23 developed market countries outside of the United States

Global Equity Universe



Private Equity is Not Identical to Public Equity

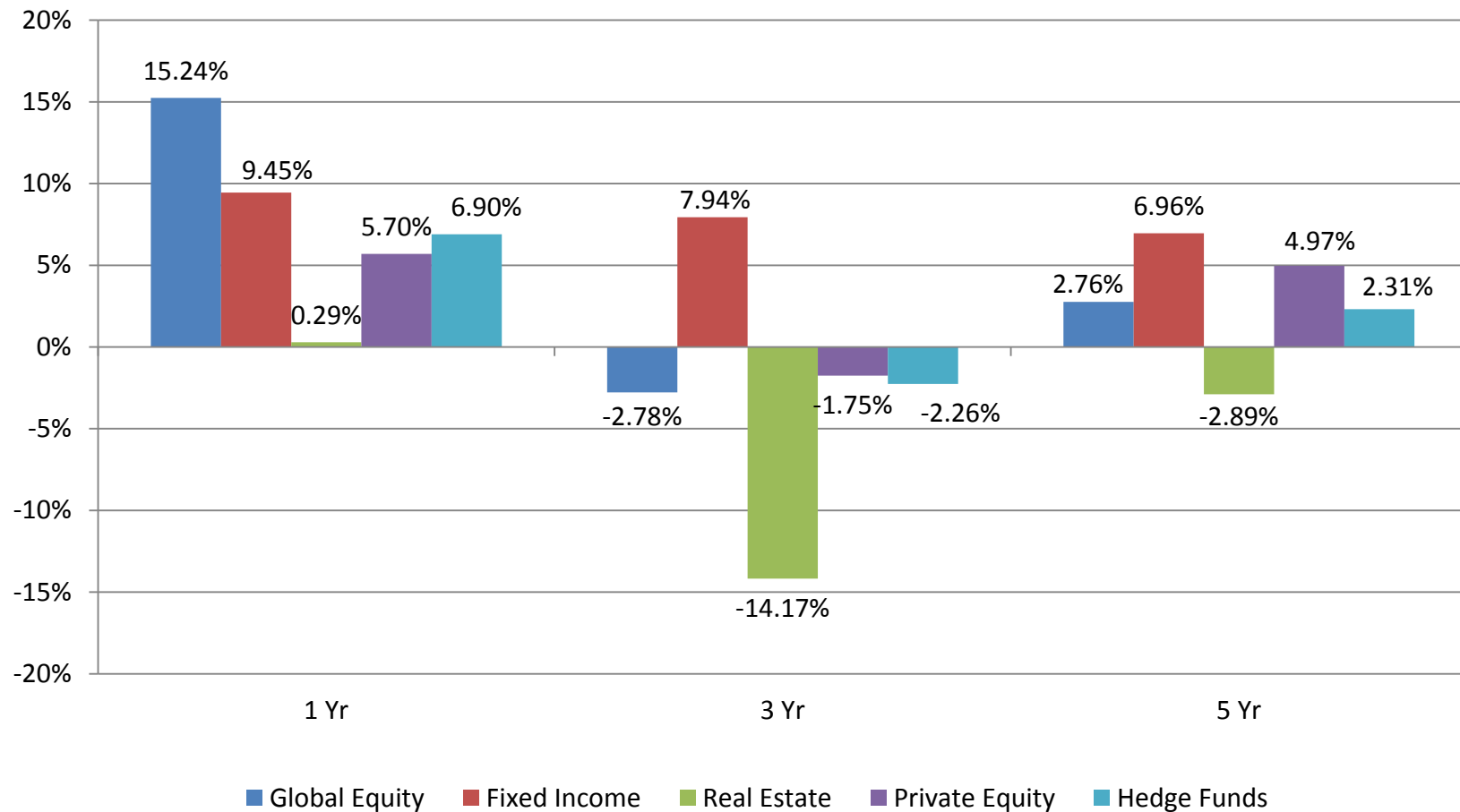
Correlation Matrix*

Asset Class	Fixed Income	High Yield	U.S. Large-Cap	U.S. Small-Cap	Non-U.S. Dev'd	Non-U.S. EM	Private Equity	Real Estate	Hedge Funds	Commodities	Timber	Infrastructure
Fixed Income	1.00											
High Yield	0.42	1.00										
U.S. Large-Cap	0.15	0.57	1.00									
U.S. Small-Cap	0.12	0.58	0.91	1.00								
Non-U.S. – Dev'd	0.14	0.56	0.80	0.78	1.00							
Non-U.S. – EM	0.03	0.50	0.68	0.70	0.76	1.00						
Private Equity	0.03	0.49	0.72	0.75	0.67	0.59	1.00					
Real Estate	0.16	0.42	0.43	0.44	0.40	0.31	0.32	1.00				
Hedge Funds	-0.01	0.40	0.49	0.54	0.56	0.52	0.43	0.26	1.00			
Commodities	-0.01	0.21	0.18	0.18	0.26	0.32	0.16	0.16	0.33	1.00		
Timber	0.01	0.10	0.08	0.08	0.13	0.12	0.12	0.11	0.19	0.17	1.00	
Infrastructure	0.18	0.39	0.47	0.46	0.48	0.41	0.37	0.28	0.39	0.35	0.19	1.00

Private Equity provides some diversification benefits

*Source: NCRS Asset Allocation Study 2010

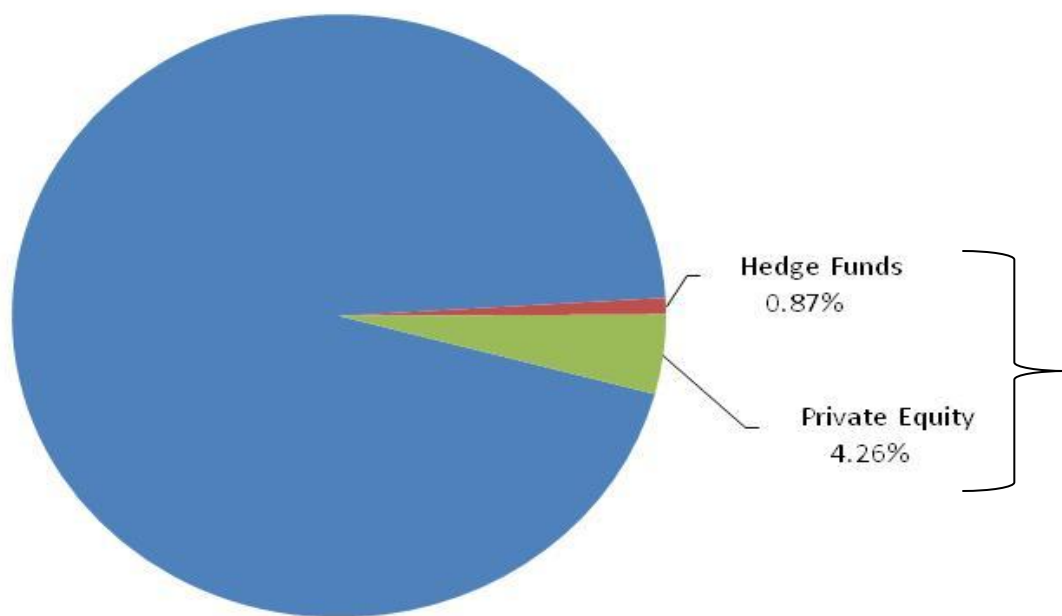
Private Equity One of Best Asset Classes over Last Five Years



Private Equity provides some enhancement to portfolio returns

NCRS Managing to the Legislative Cap

NCRS Asset Allocation
based on 12/31/2010 market value



Alternatives represents 5.13% of the NCRS portfolio – exceeding its 5.0% Legislative Cap.*

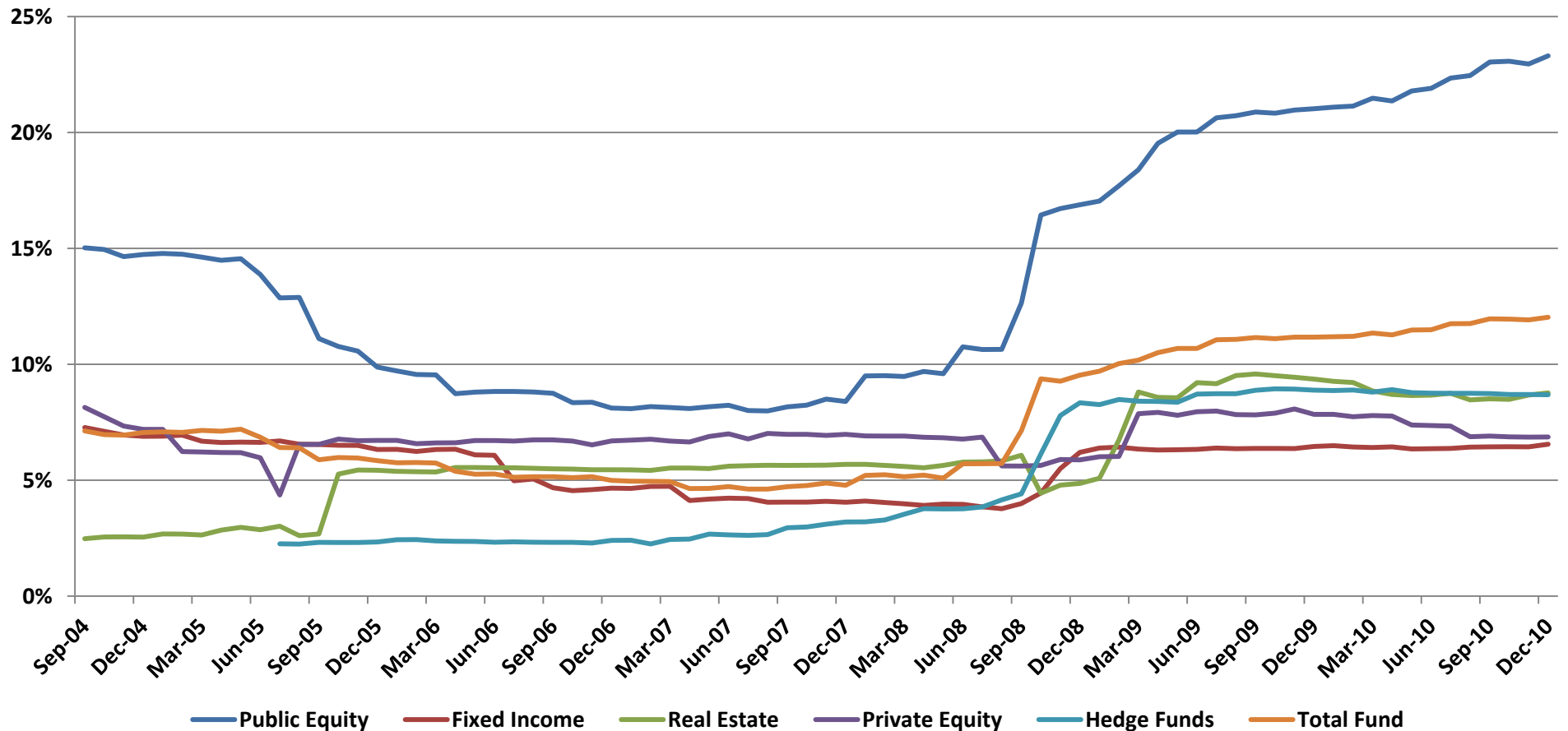


**as of 12/31/2010*

Long/Short Equity Strategies Reduce Portfolio Risk

Public Equity Portfolio is currently the riskiest asset class

NCRS Rolling 3 Year Volatility



Diversifying Portfolio Allocations Further Reduces Risk

Asset Class	Prior Target	Current Target	Proposed Target A	Proposed Target B
Global Equity	50.0%	40.5%	37.0%*	37.0%**
Fixed Income	39.5%	38.0%	38.0%	38.0%
Real Estate	6.0%	8.0%	8.0%	8.0%
Alternatives	4.5%	4.5%	8.0%	8.0%
Credit Strategies	0%	4.5%	4.5%	4.5%
Inflation Portfolio	0%	4.5%	4.5%	4.5%
Expected Return	7.19%	7.30%	7.38%	7.24%
Expected Risk	10.05%	9.49%	9.43%	8.54%

* 95% of Proposed Target in Long-Only Equities / 5% of Proposed Target in Hedge Funds

** 75% of Proposed Target in Long-Only Equities / 25% of Proposed Target in Hedge Funds